



## **Manufacturing Subgroup Interim Report**

### **Subgroup Activity:**

The Manufacturing Subgroup of the Governor's Commission on Economic Development and Job Creation has met twice since the first full Commission meeting. During the May 26<sup>th</sup> meeting, members discussed the research materials provided, clarified areas of concern, and reviewed Virginia's various manufacturing demographics. Subgroup members approved their "Visions Strategies" and identified key stakeholders to reach out to for input and guidance.

At the July 12<sup>th</sup> meeting, the Subgroup members discussed their research and progress on further formulating the group's "Visions and Goals" in preparation for the Interim Report. Subgroup members discussed their meetings with stakeholders, state departments, and the manufacturing community at large.

Subgroup members will continue to meet and communicate with key stakeholders as they work towards a comprehensive final report. Stakeholder groups include (but are not limited to):

American Chemistry Council, National Association of Manufacturers, PhRMA, Shenandoah Valley Partnership, VACO, Virginia Biotechnology Association, Virginia Career and Technical Educators Association, Virginia Career Colleges Association, Virginia Chamber of Commerce, Virginia Community College System, Virginia Council on Advanced Technology Skills, Virginia Craft Brewers Council, Virginia Department of Business Assistance, Virginia Department of Taxation, Virginia Economic Development Partnership, Virginia Electronic Commerce Technology Center, Virginia Industry Foundation, Virginia Manufacturers Association, Virginia Seafood Council, and Virginia Wholesalers and Distributors Association and Virginia Workforce Council.

### **Analysis:**

Virginia has long been recognized as a good home for manufacturing. The Subgroup's purpose is to advance innovative, achievable recommendations that will enable the Commonwealth to expand upon the existing base and become even more attractive for manufacturers operating in today's competitive global marketplace. Specifically, the Subgroup will advance proposals to assist Virginia in becoming the best state in the country in which to manufacture industrial and consumer goods, a destination for new jobs, and the best state in which to locate manufacturing company headquarters. This is very attainable given Virginia's current strengths and present adverse developments in many states across the U.S.

Several areas of opportunity have been identified, including:

- Workforce Development
- Regulatory Policy
- Taxation

Following the May 26 meeting, the Subgroup members reached out to manufacturers representing a broad spectrum of industries across the Commonwealth. Suggestions and ideas which would help spur economic development, retain and expand the manufacturing base and create new jobs were solicited. The Subgroup received several suggestions, including those opportunities noted above, to further Virginia's competitiveness. The Subgroup also received resounding appreciation to the Governor for placing an emphasis on manufacturing.

Among the opportunities, Virginia's regulatory policies will require special and continuing consideration. At a high level, they appear to be balanced and fair, but they are not without challenges to future manufacturing costs and competitiveness.

A 2006 JLARC Study indicated that globalization, technology and productivity improvements, and increasing labor costs were the principal drivers for job loss in the manufacturing sector between 2000 and 2005, not Virginia's regulations. Further, the recent loss of manufacturing jobs appears to be largely influenced by the challenges impacting all sectors of the economy, including significant competitive pressure on firms competing on a global basis. Given these factors, it will be important that prospective effort be focused on identifying opportunities to reduce the cost burden of regulations to enhance manufacturing competitiveness.

For this reason, the Subgroup believes that a desired outcome should be a regulatory environment in Virginia that promotes competitiveness and economic growth.

While it is clearly important that the environment be protected and workplaces be safe for Virginia to remain a competitive state for manufacturers, the Commonwealth should exercise care to avoid the path of other states by imposing environmental regulations more stringent than, or in lieu of Federal regulations, without a demonstrated need. Further, regulations should maintain an appropriate balance between environmental or social purposes and economic development.

### **Vision Strategies:**

**Vision:** To create an environment where current Virginia manufacturers can expand and allows Virginia to recruit new traditional and advanced manufacturing companies and new jobs to the Commonwealth.

### **Approach:**

- I. This subgroup will examine the current manufacturing incentives and tax structure, review any regulatory burdens and consider what changes are necessary to expand manufacturing opportunity in Virginia.

### **Strategies:**

- I. Examine and recommend regulatory and tax structure improvements. Review manufacturing programs for appropriate resource support and make reallocation of resource recommendations to promote overall state competitiveness.
- II. Recommend how to build out and develop additional mega-sites for advanced manufacturing facilities.
- III. Identify economic development-related determining factors by size of company for manufacturers that have decided to or not decided to place assets in Virginia.
- IV. Identify advanced manufacturing sectors and clusters, domestic and foreign owned, where Virginia is best positioned to recruit new businesses and develop strategies to incentivize companies in those sectors to locate in Virginia.
- V. Rank the effectiveness of the Virginia Investment Partnership (VIP) Grant as a manufacturing retention/expansion tool. Ensure that Virginia has the appropriate tools to retain and expand its manufacturing base.
- VI. Increase R&D and applied technology projects with manufacturers and Virginia's higher education institutions, including community colleges.
- VII. Engage leading manufacturing companies and organizations in the implementation of strategic manufacturing goals and initiatives.
- VIII. Enhance workforce development readiness and skills credential resources for manufacturers and promote workforce development as an asset to potential Virginia manufacturers.
- IX. Reduce direct and indirect environmental permitting process and compliance costs for manufacturers.
- X. Expand the use of the Port of Virginia for Virginia Manufacturers through incentives.
- XI. Expand the use and availability of broadband throughout the Commonwealth.

### **Initial Ideas and Recommendations:**

- 1) Allow single sales factor election to be fully used in an expedited manner, instead of transitioning to 2014. 22 other states already allow this for manufacturers, including GA, KY, LA and SC. Remove the penalty and interest provision of the single sales factor. The certification and base year level of employment accompanied by penalty and interest, if the company fails, is equally onerous given today's business climate. Having the single sales factor elective is a positive approach.

- 2) Make it easier for changes between the three methods of corporate income taxation in the state—consolidation, combination or separate filing. In Virginia, a corporation can elect one of three group filing methodologies (separate, combined or consolidated) and once chosen, it can be very difficult to change. There is a very specific statutory carve-out that few taxpayers qualify for, as you must have filed for 20 consecutive years on your former method, and agree to file under your “old” and “new” methodology for two years, paying the greater of the tax.
- 3) Create manufacturing related tax credits that are refundable or transferrable. Virginia offers many different credits but few are manufacturing specific.
- 4) Allow R&D tax credits that are refundable, transferrable or are allowed to be applied against taxes other than just income tax; e.g., license taxes, property taxes, etc.
- 5) Organize existing workforce development programs to better prepare emerging and adult workers with industry certified skills credentials and work readiness in order to be productive in lean advanced technology businesses. The skills needed by manufacturers five years ago, are not the skills required today. Manufacturers need to lead the development of curriculum and competency-based assessments leading toward skills certifications and need the support of the public system for implementation.
- 6) Expand the Tuition Assistance Grant Program.
- 7) Provide for government incentives for individuals to participate and fulfill the program in demand by the businesses. Facilitate a demand-driven workforce development system.
- 8) Develop a Port Tax Incentive Program for Manufacturers. North Carolina, South Carolina and Georgia all have good examples to review.
- 9) Improve the utility and reduce the costs of using Foreign Trade Zones for all manufacturers.
- 10) Consider strategies to address the issue of the Machinery & Tools Tax such as:
  - a. Repeal the tax without new local revenue.
  - b. Repeal the tax only on new investment.
  - c. Allow manufactures to deduct local M&T taxes from state income tax payments.
  - d. Grant manufacturers a transferable income tax credit for local M&T taxes paid annually.
- 11) Evaluate current manufacturing government programs and recommend, where appropriate privatization opportunities or a reallocation of resources to best serve the largest group of manufacturers.
- 12) Create tax incentive for steam generation and on-site renewable energy production.

- 13) Create a research and development collaborative modeled after the Georgia Research Alliance and Georgia Tech University whereby industry is encouraged to engage institutions of higher education in research and development, particularly sponsored research and applied science and engineering.
- 14) Implement an expedited permit approval process on all levels when new capital investments and new jobs are being considered or when existing jobs are at risk. Permits are required on many levels, but Virginia can provide a good example to local governing bodies by implementing a “fast track permitting” process for speedy approval when economic investments, meeting certain specific commitments, are being contemplated.
- 15) Create a system of incentives to promote the collection and expansion of a private market of recyclable materials for beneficial use in manufacturing.

**Next Steps:**

In the interim, the staff and Chairman of the Manufacturing Subgroup will continue to meet with interested parties soliciting ideas and examine other programs in competing states.

At our next meeting we will meet with Chair of the Workforce Development Subgroup to discuss specific ways that Workforce Development impacts the manufacturing community.

The Subgroup will meet again on August 16th in Richmond to further vet initial recommendations followed by a September meeting to finalize a list of recommendations to send to the Governor.